

CLAY CENTRAL/EVERLY COMMUNITY SCHOOL
DISTRICT

INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS AND RESPONSES

June 30, 2007

Table of Contents

	<u>Page</u>
Officials	1
Independent Auditor's Report	2-3
Management's Discussion and Analysis (MD&A)	4-10
Basic Financial Statements:	<u>Exhibit</u>
Government-wide Financial Statements:	
Statement of Net Assets	A 12-13
Statement of Activities	B 14-15
Governmental Fund Financial Statements:	
Balance Sheet	C 16
Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Assets	D 17
Statement of Revenues, Expenditures and Changes in Fund Balances	E 18-19
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds to the Statement of Activities	F 20
Proprietary Fund Financial Statements:	
Statement of Net Assets	G 21
Statement of Revenues, Expenses, and Changes in Fund Net Assets	H 22
Statement of Cash Flows	I 23
Fiduciary Fund Financial Statements:	
Statement of Fiduciary Net Assets	J 24
Statement of Changes in Fiduciary Net Assets	K 25
Notes to Financial Statements	26-34
Required Supplementary Information:	
Budgetary Comparison Schedule of Revenues, Expenditures and Changes in Balances - Budget and Actual - All Governmental Funds and Proprietary Fund	36
Notes to Required Supplementary Information - Budgetary Reporting	37
	<u>Schedule</u>
Other Supplementary Information:	
Nonmajor Governmental Funds:	
Combining Balance Sheet	1 39
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances	2 40
Schedule of Changes in Special Revenue Fund, Student Activity Accounts	3 41
Schedule of Changes in Fiduciary Assets and Liabilities - Agency Fund	4 42
Schedule of Revenues by Source and Expenditures by Function - All Governmental Funds	5 43
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <u>Government Auditing Standards</u>	44-45
Schedule of Findings and Responses	46-48

Gary E. Horton CPA

902 Central Ave. E.-PO Box 384
Clarion, IA 50525-0384
(515)532-6681 Phone
(515) 532-2405 Fax
BETCO@mchsi.com E-mail

Independent Auditor's Report

To the Board of Education of
Clay Central/Everyly Community School District:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Clay Central/Everyly Community School District, Royal, Iowa, as of and for the year ended June 30, 2007, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Clay Central/Everyly Community School District at June 30, 2007, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated April 23, 2008, on our consideration of Clay Central/Everyly Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contract and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 10 and 36 through 37 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Clay Central/Everyly Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2006, (which are not presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 5, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

BURTON E. TRACY & CO., P.C.
Certified Public Accountants

April 23, 2008

MANAGEMENT'S DISCUSSION AND ANALYSIS

Clay Central - Everly Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2007. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

2007 Financial Highlights

- General Fund revenues increased from \$4,102,560 in fiscal 2006 to \$4,424,613 in fiscal 2007, while General Fund expenditures increased from \$4,147,315 in fiscal 2006 to \$4,237,554 in fiscal 2007. The District's General Fund balance increased from \$(882,955) in fiscal 2006 to \$(717,175) in fiscal 2007.
- The increase in fund balance is mostly due to increased cost of special education programs. Increased negotiated salary expenses, utility and fuel costs were also contributing factors in our balance decrease.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the District's financial activities.

The Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of Clay Central - Everly Community School District as a whole and present an overall view of the District's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report Clay Central/Everly Community School District's operations in more detail than the government-wide statements by providing information about the most significant funds. The remaining statements provide financial information about activities for which Clay Central - Everly Community School District acts solely as an agent or custodian for the benefit of those outside of County government.

Notes to financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the District's budget for the year.

Other Supplementary Information provides detailed information about the non-major funds.

REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

The government-wide financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities, regardless of when cash is received or paid.

The two government-wide financial statements report the District's net assets and how they have changed. Net assets – the difference between the District's assets and liabilities – are one way to measure the District's financial health or financial position. Over time, increases or decreases in the District's net assets are an indicator of whether financial position is improving or deteriorating. To assess the District's overall health, additional non-financial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities, need to be considered.

In the government-wide financial statements, the District's activities are divided into two categories:

- *Governmental activities:* Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property tax and state aid finance most of these activities.
- *Business type activities:* The District charges fees to help cover the costs of certain services it provides. The District's school nutrition program is included here.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

Some funds are required by state law and by bond covenants. The District establishes other funds to control and manage money for particular purposes, such as accounting for student activity funds, or to show that it is properly using certain revenues, such as federal grants.

The District has three kinds of funds:

Governmental funds: Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs.

The District's governmental funds include the General Fund, Special Revenue Funds, Debt Service Fund and Capital Projects Fund.

The required financial statements for governmental funds include a balance sheet and a statement of revenues, expenditures and changes in fund balances.

Proprietary funds: Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide financial statements. The District's Enterprise Funds, one type of proprietary fund, are the same as its business type activities, but provide more detail and additional information, such as cash flows. The District currently has one Enterprise Fund, the School Nutrition Fund.

The required financial statements for proprietary funds include a statement of revenues, expenses and changes in fund net assets and a statement of cash flows.

Fiduciary funds: The District is the trustee, or fiduciary, for assets that belong to others. These funds include Private-Purpose Trust and Agency Funds.

- Private-Purpose Trust Fund – The District accounts for outside donations for scholarships for individual students in this fund.
- Agency Funds – These are funds through which the District administers and accounts for certain federal and/or state grants on behalf of other Districts and certain revenue collected for District employee purchases of pop and related expenditures.

The District is responsible for ensuring the assets reported in the fiduciary funds are used only for their intended purposes and by those to whom the assets belong. The District excludes these activities from the government-wide financial statements because it cannot use these assets to finance its operations.

The required financial statements for fiduciary funds include a statement of fiduciary net assets and a statement of changes in fiduciary net assets.

Reconciliations between the government-wide financial statements and the fund financial statements follow the fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-1 below provides a summary of the District’s net assets at June 30, 2007 compared to June 30, 2006.

Figure A-1

	Condensed Statement of Net Assets						Percentage Change 2007-2006
	Governmental Activities		Business-type Activities		Total School District		
	2006	2007	2006	2007	2006	2007	
	\$	\$	\$	\$	\$	\$	
Current and other assets	3,258,933	4,013,771	6,172	(21,095)	3,265,105	3,992,676	22%
Capital assets	1,165,562	1,279,077	6,449	6,450	1,172,011	1,285,527	10%
Total assets	4,424,495	5,292,848	12,621	(14,645)	4,437,116	5,278,203	19%
Long-term liabilities	53,384	39,859	-	-	53,384	39,859	-25%
Other liabilities	4,023,400	4,645,997	14,827	13,224	4,038,227	4,659,221	15%
Total liabilities	4,076,784	4,685,856	14,827	13,224	4,091,611	4,699,080	15%
Net Assets:							
Invested in capital assets, net of related debt	1,126,654	1,259,211	6,449	6,450	1,133,103	1,265,661	12%
Restricted	95,680	21,831	-	-	95,680	21,831	-77%
Unrestricted	(874,623)	(674,050)	(8,655)	(34,319)	(883,278)	(708,369)	20%
TOTAL NET ASSETS	347,711	606,992	(2,206)	(27,869)	345,505	579,123	68%

The District’s combined net assets increased by nearly 68%, or approximately \$233,618, over the prior year. The largest portion of the District’s net assets is invested in capital assets (e.g., land, infrastructure, buildings and equipment), less the related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net assets represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District’s restricted net assets decreased approximately \$73,849 or 77% over the prior year.

Unrestricted net assets – the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements – increased approximately \$174,909, or 20%.

Figure A-2 shows the change in net assets for the years ended June 30, 2007 and 2006.

Figure A-2

	Change in Net Assets						Percentage Change 2007-2006
	Governmental Activities		Business-type Activities		Total School District		
	2006 \$	2007 \$	2006	2007 \$	2006	2007 \$	
Revenues							
Program Revenues:							
Charges for services	413,473	351,663	98,781	91,200	512,254	442,863	-14%
Operating grants & contributions	544,734	479,537	79,254	73,011	623,988	552,548	-12%
Capital grants & contributions	-	16,275	-	-	-	16,275	100%
General Revenues:							
Property taxes	1,875,941	2,144,627	-	-	1,875,941	2,144,627	14%
Income Surtax	-	63,594	-	-	-	63,594	100%
Local option sales tax	260,031	331,548	-	-	260,031	331,548	28%
Unrestricted state grants	1,467,331	1,485,715	-	-	1,467,331	1,485,715	1%
Unrestricted investment earnings	15,790	28,865	34	64	15,824	28,929	83%
Other revenue	-	28,330	-	-	-	28,330	100%
Total Revenues	4,577,300	4,930,154	178,069	164,275	4,755,369	5,094,429	7%
Expenses:							
Instruction	2,789,510	2,687,508	-	-	2,789,510	2,687,508	-4%
Support services	1,471,944	1,495,604	-	-	1,471,944	1,495,604	2%
Non-instructional programs	1,700	473	169,916	189,938	171,616	190,411	11%
Other expenditures	482,274	487,288	-	-	482,274	487,288	1%
Total expenses	4,745,428	4,670,873	169,916	189,938	4,915,344	4,860,811	-1%
Change in net assets before transfers	(168,128)	259,281	8,153	(25,663)	(159,975)	233,618	246%
Transfers	-	-	-	-	-	-	-
CHANGE IN NET ASSETS	(168,128)	259,281	8,153	(25,663)	(159,975)	233,618	246%
Net assets beginning of year, as restated	515,839	347,711	(10,359)	(2,206)	505,480	345,505	-32%
Net assets end of year	347,711	606,992	(2,206)	(27,869)	345,505	579,123	68%

Property tax and unrestricted state grants account for 71% of the total revenue. The District's expenses primarily relate to instruction and support services, which account for 86% of the total expenses.

Governmental Activities

Revenues for governmental activities were \$4,930,154 and expenses were \$4,670,873.

The following table presents the total and net cost of the District's major governmental activities: instruction, support services, non-instructional programs and other expenses.

Figure A-3

Total and Net Cost of Governmental Activities

	Total Cost of Services 2006 \$	Total Cost of Services 2007 \$	Net Cost Of Services 2006 \$	Net Cost of Services 2007 \$
Instruction	2,789,510	2,687,508	2,279,354	2,037,905
Support Services	1,471,944	1,495,604	1,169,496	1,470,628
Non-instructional Programs	1,700	473	1,700	(4,895)
Other Expenses	482,274	487,288	336,671	319,760
TOTAL	4,745,428	4,670,873	3,787,221	3,823,398

- The cost financed by users of the District's programs was \$351,663.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$495,812.
- The net cost of governmental activities was financed with \$2,539,769 in property and other taxes and \$1,485,715 in unrestricted state grants.

Business Type Activities

Revenues for business type activities were \$164,275 and expenses were \$189,938. The District's business type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

During the year ended June 30, 2007, the District's increased costs were due to declining enrollment. The District will increase the cost of meal prices and decrease staff. This will result in less expenditures and more revenue.

INDIVIDUAL FUND ANALYSIS

As previously noted, Clay Central - Everly Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported a combined fund deficit balance of \$695,726.

Governmental Fund Highlights

- The District's General Fund financial position is affected by many factors. Declining enrollment, increased utility costs, rising price of fuel, negotiated salary costs, and special education factors have to be considered each year before balancing the budget. The District continues to consider staff needs and other expenses in relation to revenues.
- The General Fund balance increased from \$(882,955) to \$(717,175), due to staff reductions and decreased special education costs for the year.
- The Capital Projects Fund major purchase of computer equipment for the "Computer Initiative Program" will be completed during the 2007-08 school year. This will be reflected in an increase in actual spending dollars available.

Proprietary Fund Highlights

School Nutrition Fund net assets decreased from \$(2,206) at June 30, 2006 to \$(27,869) at June 30, 2007. The declining enrollment was evident in the number of meals served and therefore, the revenue to the District. The District will increase the meal prices for the next school year and in all probability the year following. The District will reduce staff and consider other options available for cost reduction.

BUDGETARY HIGHLIGHTS

Over the course of the year, Clay Central - Everly Community School District amended its annual budget one time to reflect additional revenue and expenditures associated with support services.

The District's receipts were \$132,504 more than budgeted receipts. The most significant variance resulted from the District receiving more in local sources and less in state aid than originally anticipated.

Total expenditures were less than the amended budget, due primarily to the District's budget for the General Fund. It is the District's practice to budget expenditures at the maximum authorized spending authority for the General Fund. The District then manages or controls General Fund spending through its line-item budget. As a result, the District's certified budget should always exceed actual expenditures for the year.

In spite of the District's budget practices, the certified budget was exceeded in the other expenditures functional area due to the timing of expenditures of year-end without sufficient time to amend the budget.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2007, the District had invested \$1,285,527, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-4) More detailed information about the District's capital assets is presented in Note 6 to the financial statements. Depreciation expense for the year was \$157,682.

The original cost of the District's capital assets was \$4.90 million. Governmental funds account for \$4.86 million, with the remainder of \$.04 million accounted for in the Proprietary, School Nutrition Fund.

The increase is due to the updated of the District's building and improvements to the assets. The purchase of equipment continues as the District purchases advanced technology.

Figure A-4
Capital Assets (net of depreciation)

	Governmental Activities		Business Type Activities		Total School District		Percentage Change 2007-2006
	2006 \$	2007 \$	2006 \$	2007 \$	2006 \$	2007 \$	
Land	9,589	9,589	-	-	9,589	9,589	0%
Construction in progress	-	-	-	-	-	-	-
Buildings	1,027,615	973,041	-	-	1,027,615	973,041	-5%
Improvements	15,110	53,681	-	-	15,110	53,681	255%
Equipment & Furniture	113,248	242,766	6,449	6,450	119,697	249,216	108%
TOTAL	1,165,562	1,279,077	6,449	6,450	1,172,011	1,285,527	10%

Long-Term Debt

At June 30, 2007, the District had \$ 39,859 in other long-term debt outstanding. (See Figure A-5) Additional information about the District's long-term debt is presented in Note 8 to the financial statements.

**Figure A-5
Outstanding Long-Term Obligations**

	Total School District		Percentage Change
	<u>2006</u>	<u>2007</u>	<u>2007-2006</u>
	\$	\$	
Energy Loan Notes	38,908	19,866	-49%
Early Retirement	<u>14,476</u>	<u>19,993</u>	<u>38%</u>
	<u>53,384</u>	<u>39,859</u>	<u>-25%</u>

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

At the time these financial statements were prepared and audited, the District was aware of several existing circumstances that could significantly affect its financial health in the future:

- School financing is highly dependent upon student enrollment. The District's September 2006 enrollment decreased by thirty students. This drop in enrollment will decrease the District's funding for fiscal year 2008.
- The District is projecting that our student enrollment numbers will continue to decline for the next five years. This will continue to have a negative effect on our funding.
- The District has evaluated the condition of its transportation vehicles and determined that our current fleet will meet the needs of our district next year.
- The District realigned the elementary staff and program for fiscal year 2008. There will be a significant decrease in salary costs in the fiscal year 2008.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Donna Ott, District Secretary/Treasurer and Business Manager, Clay Central/Everyly School District, 401 Church St, PO Box 110, Royal, Iowa, 51357.

BASIC FINANCIAL STATEMENTS

CLAY CENTRAL/EVERLY COMMUNITY SCHOOL DISTRICT

Statement of Net Assets

June 30, 2007

	Governmental Activities	Business Type Activities	Total
	\$	\$	\$
Assets			
Cash and cash equivalents:			
ISCAP	1,213,083	-	1,213,083
Other	238,816	-	238,816
Receivables:			
Property tax:			
Delinquent	33,371	-	33,371
Succeeding year	2,248,602	-	2,248,602
Accounts	3,917	611	4,528
Accrued interest:			
ISCAP	4,058	-	4,058
Due from other governments	243,206	-	243,206
Inventories	-	7,012	7,012
Interfund receivable/(payable)	28,718	(28,718)	-
Capital assets, net of accumulated depreciation	1,279,077	6,450	1,285,527
	<u>5,292,848</u>	<u>(14,645)</u>	<u>5,278,203</u>
Total assets			
Liabilities			
Excess of warrants issued over bank balance	-	1,925	1,925
Accounts payable	38,661	595	39,256
Salaries and benefits payable	439,434	8,271	447,705
Accrued interest payable	95	-	95
Deferred revenue:			
Succeeding year property tax	2,248,602	-	2,248,602
Other	-	2,433	2,433
ISCAP warrants payable	1,768,000	-	1,768,000
ISCAP accrued interest payable	10,279	-	10,279
ISCAP premium	10,799	-	10,799
Notes payable-banks	130,127	-	130,127
Long-term liabilities:			
Portion due within one year:			
Energy notes payable	19,866	-	19,866
Termination benefits	8,331	-	8,331
Portion due after one year:			
Termination benefits	11,662	-	11,662
	<u>4,685,856</u>	<u>13,224</u>	<u>4,699,080</u>
Total liabilities			

CLAY CENTRAL/EVERLY COMMUNITY SCHOOL DISTRICT

Statement of Net Assets

June 30, 2007

	Governmental Activities	Business Type Activities	Total
	<u>\$</u>	<u>\$</u>	<u>\$</u>
Net assets			
Invested in capital assets, net of related debt	1,259,211	6,450	1,265,661
Restricted for:			
Management levy	1,668	-	1,668
Other special revenue purposes	20,163	-	20,163
Unrestricted	<u>(674,050)</u>	<u>(34,319)</u>	<u>(708,369)</u>
Total net assets	<u><u>606,992</u></u>	<u><u>(27,869)</u></u>	<u><u>579,123</u></u>

CLAY CENTRAL/EVERLY COMMUNITY SCHOOL DISTRICT

Statement of Activities

Year ended June 30, 2007

Functions/Programs	Program Revenues			
	Expenses	Charges for Services	Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
	\$	\$	\$	\$
Governmental activities:				
Instruction:				
Regular	1,617,383	229,906	228,502	-
Special	626,457	48,157	12,040	-
Other	443,668	68,232	62,766	-
	<u>2,687,508</u>	<u>346,295</u>	<u>303,308</u>	<u>-</u>
Support services:				
Student	194,405	-	-	-
Instructional staff	123,788	-	22,110	-
Administration	637,006	-	1,453	-
Operation and maintenance of plant	340,543	-	-	-
Transportation	199,862	-	1,413	-
	<u>1,495,604</u>	<u>-</u>	<u>24,976</u>	<u>-</u>
Non-instructional programs	473	5,368	-	-
Other expenditures:				
Facilities acquisition	271,530	-	-	16,275
Long-term debt interest	2,146	-	-	-
AEA flowthrough	151,253	-	151,253	-
Depreciation (unallocated)*	62,359	-	-	-
	<u>487,288</u>	<u>-</u>	<u>151,253</u>	<u>16,275</u>
Total governmental activities	4,670,873	351,663	479,537	16,275
Business type activities:				
Non-instructional programs:				
Food service operations	189,938	91,200	73,011	-
Total	<u>4,860,811</u>	<u>442,863</u>	<u>552,548</u>	<u>16,275</u>
General Revenues:				
Property taxes levied for:				
General purposes				
Income surtax				
Local option sales and services tax				
Unrestricted state grants				
Unrestricted investment earnings				
Other				
Total general revenues				

Change in net assets

Net assets beginning of year

Net assets end of year

*This amount excludes the depreciation that is included in the direct expenses of the various programs.

CLAY CENTRAL/EVERLY COMMUNITY SCHOOL DISTRICT

Statement of Activities

Year ended June 30, 2007

<u>Net (Expense) Revenue and Changes in Net</u>		
<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Total</u>
<u>\$</u>	<u>\$</u>	<u>\$</u>
(1,158,975)	-	(1,158,975)
(566,260)	-	(566,260)
(312,670)	-	(312,670)
<u>(2,037,905)</u>	<u>-</u>	<u>(2,037,905)</u>
(194,405)	-	(194,405)
(101,678)	-	(101,678)
(635,553)	-	(635,553)
(340,543)	-	(340,543)
(198,449)	-	(198,449)
<u>(1,470,628)</u>	<u>-</u>	<u>(1,470,628)</u>
<u>4,895</u>	<u>-</u>	<u>4,895</u>
(255,255)	-	(255,255)
(2,146)	-	(2,146)
-	-	-
(62,359)	-	(62,359)
<u>(319,760)</u>	<u>-</u>	<u>(319,760)</u>
(3,823,398)	-	(3,823,398)
<u>-</u>	<u>(25,727)</u>	<u>(25,727)</u>
<u>(3,823,398)</u>	<u>(25,727)</u>	<u>(3,849,125)</u>
2,144,627	-	2,144,627
63,594	-	63,594
331,548	-	331,548
1,485,715	-	1,485,715
28,865	64	28,929
28,330	-	28,330
<u>4,082,679</u>	<u>64</u>	<u>4,082,743</u>
259,281	(25,663)	233,618
347,711	(2,206)	345,505
<u>606,992</u>	<u>(27,869)</u>	<u>579,123</u>

CLAY CENTRAL/EVERLY COMMUNITY SCHOOL DISTRICT

Balance Sheet
Governmental Funds

June 30, 2007

	General Fund	Nonmajor Governmental Funds	Total
	\$	\$	\$
Assets			
Cash and pooled investments:			
ISCAP	1,213,083	-	1,213,083
Other	155,547	83,269	238,816
Receivables:			
Property tax:			
Delinquent	32,196	1,175	33,371
Succeeding year	2,163,602	85,000	2,248,602
Accounts	-	3,917	3,917
Accrued interest - ISCAP	4,058	-	4,058
Interfund receivable/payable	44,837	-	44,837
Due from other governments	159,539	83,667	243,206
Total assets	<u>3,772,862</u>	<u>257,028</u>	<u>4,029,890</u>
Liabilities and Fund Balances			
Liabilities:			
Accounts payable	34,329	4,333	38,662
Salaries and benefits payable	439,434	-	439,434
Interfund payable	-	16,119	16,119
ISCAP warrants payable	1,768,000	-	1,768,000
ISCAP accrued interest payable	10,279	-	10,279
ISCAP premium	10,799	-	10,799
Deferred revenue:			
Succeeding year property tax	2,163,602	85,000	2,248,602
Other	63,594	-	63,594
Notes payable	-	130,127	130,127
Total liabilities	<u>4,490,037</u>	<u>235,579</u>	<u>4,725,616</u>
Fund balances:			
Unreserved, reported in:			
General fund	(717,175)	-	(717,175)
Special Revenue funds	-	41,824	41,824
Capital Project funds	-	(20,375)	(20,375)
Total fund balances	<u>(717,175)</u>	<u>21,449</u>	<u>(695,726)</u>
Total liabilities and fund balances	<u>3,772,862</u>	<u>257,028</u>	<u>4,029,890</u>

CLAY CENTRAL/EVERLY COMMUNITY SCHOOL DISTRICT

Reconciliation of the Balance Sheet - Governmental Funds
to the Statement of Net Assets

June 30, 2007

	\$
Total fund balances of governmental funds (Exhibit C)	(695,726)
<i>Amounts reported for governmental activities in the Statement of Net Assets are different because:</i>	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.	1,279,077
Other long-term assets are not available to pay current period expenditures and, therefore, are deferred in the governmental funds.	63,594
Accrued interest payable on long-term liabilities is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds.	(95)
Long-term liabilities, including energy notes payable and termination benefits, are not due and payable in the current period and therefore, are not reported as liabilities in the governmental funds.	<u>(39,858)</u>
Net assets of governmental activities (Exhibit A)	<u><u>606,992</u></u>

CLAY CENTRAL/EVERLY COMMUNITY SCHOOL DISTRICT

Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds

Year ended June 30, 2007

	General Fund	Nonmajor Governmental Funds	Total
	\$	\$	\$
Revenues:			
Local sources:			
Local tax	2,124,477	406,615	2,531,092
Tuition	249,008	-	249,008
Other	85,916	73,932	159,848
State sources	1,878,285	42	1,878,327
Federal sources	86,927	16,275	103,202
Total revenues	<u>4,424,613</u>	<u>496,864</u>	<u>4,921,477</u>
Expenditures:			
Current:			
Instruction:			
Regular	1,734,654	28,633	1,763,287
Special	626,457	-	626,457
Other	357,141	86,527	443,668
	<u>2,718,252</u>	<u>115,160</u>	<u>2,833,412</u>
Support services:			
Student	136,148	58,257	194,405
Instructional staff	123,172	616	123,788
Administration	626,094	21,671	647,765
Operation and maintenance of plant	313,458	24,073	337,531
Transportation	169,177	8,442	177,619
	<u>1,368,049</u>	<u>113,059</u>	<u>1,481,108</u>
Non-instructional programs	<u>-</u>	<u>473</u>	<u>473</u>
Other expenditures:			
Facilities acquisition	-	310,480	310,480
Long-term debt:			
Principal	-	19,042	19,042
Interest and fiscal charges	-	2,237	2,237
AEA flowthrough	151,253	-	151,253
	<u>151,253</u>	<u>331,759</u>	<u>483,012</u>
Total expenditures	<u>4,237,554</u>	<u>560,451</u>	<u>4,798,005</u>
Excess (deficiency) of revenues over (under) expenditures	<u>187,059</u>	<u>(63,587)</u>	<u>123,472</u>

CLAY CENTRAL/EVERLY COMMUNITY SCHOOL DISTRICT

Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds

Year ended June 30, 2007

	General Fund	Nonmajor Governmental Funds	Total
	<u>\$</u>	<u>\$</u>	<u>\$</u>
Other financing sources (uses):			
Operating transfers in	-	21,279	21,279
Operating transfers out	(21,279)	-	(21,279)
Total other financing sources (uses)	<u>(21,279)</u>	<u>21,279</u>	<u>-</u>
Net change in fund balances	165,780	(42,308)	123,472
Fund balances beginning of year	<u>(882,955)</u>	<u>63,757</u>	<u>(819,198)</u>
Fund balances end of year	<u>(717,175)</u>	<u>21,449</u>	<u>(695,726)</u>

CLAY CENTRAL/EVERLY COMMUNITY SCHOOL DISTRICT

Reconciliation of the Statement of Revenues, Expenditures and
Changes in Fund Balances - Governmental Funds to the
Statement of Activities

Year ended June 30, 2007

	\$	\$
Net change in fund balances - total governmental funds (Exhibit E)		123,472
<i>Amounts reported for governmental activities in the Statement of Activities are different because:</i>		
Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are not reported in the Statement of Activities and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. Capital outlay expenditures exceeded depreciation expense in the current year as follows:		
Expenditures for capital assets	268,839	
Depreciation expense	<u>(155,324)</u>	113,515
Income surtaxes not collected for several months after the District's fiscal year ends are not considered "available" revenues in the governmental funds and are included as deferred revenues. They are, however, recorded as revenues in the Statement of Activities.		
		8,677
Repayment of long-term liability principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.		
		19,042
Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities interest expense is recognized as the interest accrues, regardless of when it is due.		
		91
Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds, as follows:		
Termination benefits		<u>(5,516)</u>
Changes in net assets of governmental activities (Exhibit B)		<u><u>259,281</u></u>

CLAY CENTRAL/EVERLY COMMUNITY SCHOOL DISTRICT

Statement of Net Assets
Proprietary Funds

June 30, 2007

	Nonmajor School Nutrition
	<u>\$</u>
Assets	
Cash and cash equivalents	
Accounts receivable	611
Inventories	7,012
Capital assets, net of accumulated depreciation	<u>6,450</u>
Total assets	<u>14,073</u>
Liabilities	
Warrants issued in excess of bank balance	1,925
Accounts payable	595
Interfund loan payable	28,718
Salaries and benefits payable	8,271
Deferred revenue	<u>2,433</u>
Total liabilities	<u>41,942</u>
Net assets	
Invested in capital assets, net of related debt	6,450
Unrestricted	<u>(34,319)</u>
Total net assets	<u><u>(27,869)</u></u>

CLAY CENTRAL/EVERLY COMMUNITY SCHOOL DISTRICT
Statement of Revenues, Expenses, and Changes in Fund Net Assets
Proprietary Funds

Year ended June 30, 2007

	Nonmajor School Nutrition
	\$
Operating revenues:	
Local sources:	
Charges for service	91,200
Operating expenses:	
Non-instructional programs:	
Salaries	54,541
Benefits	28,143
Purchased services	1,769
Supplies	103,011
Depreciation	2,358
Other	116
	189,938
Operating gain (loss)	(98,738)
Non-operating revenues:	
State sources	2,138
Federal sources	70,873
Interest income	64
Total non-operating revenues	73,075
Change in net assets	(25,663)
Net assets beginning of year	(2,206)
Net assets end of year	(27,869)

CLAY CENTRAL/EVERLY COMMUNITY SCHOOL DISTRICT

Statement of Cash Flows
Proprietary Funds

Year ended June 30, 2007

	Nonmajor School Nutrition
	<u>\$</u>
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	91,564
Cash payments to employees for services	(87,075)
Cash payments to suppliers for goods or services	(85,943)
Net cash used by operating activities	<u>(81,454)</u>
Cash flows from non-capital financing activities:	
Interfund loan	10,760
State grants received	2,138
Federal grants received	60,348
Net cash provided by non-capital financing activities	<u>73,246</u>
Cash flows from capital and related financing activities:	
Acquisition of capital assets	<u>(2,359)</u>
Cash flows from investing activities:	
Interest on investments	<u>64</u>
Net increase (decrease) in cash and cash equivalents	(10,503)
Cash and cash equivalents at beginning of year	<u>8,578</u>
Cash and cash equivalents at end of year	<u><u>(1,925)</u></u>
Reconciliation of operating gain (loss) to net cash used by operating activities:	
Operating gain (loss)	(98,738)
Adjustments to reconcile operating gain (loss) to net cash used by operating activities:	
Commodities used	10,525
Depreciation	2,358
Decrease (increase) in inventories	3,327
Decrease (increase) in accounts receivable	4,602
(Decrease) increase in accounts payable	176
(Decrease) increase in salaries and benefits payable	(4,391)
(Decrease) increase in deferred revenue	687
Net cash used in operating activities:	<u><u>(81,454)</u></u>

Non-cash investing, capital and financing activities

During the year ended June 30, 2007, the District received \$10,525 of federal commodities.

CLAY CENTRAL/EVERLY COMMUNITY SCHOOL DISTRICT

Statement of Fiduciary Net Assets
Fiduciary Funds

June 30, 2007

	Private Purpose Trust Scholarship	Agency
	<u>\$</u>	<u>\$</u>
Assets		
Cash and pooled investments	11,614	1,195
Liabilities		
Other payables	<u>-</u>	<u>1,195</u>
Net assets		
Reserved for scholarships	<u><u>11,614</u></u>	<u><u>-</u></u>

CLAY CENTRAL-EVERLY COMMUNITY SCHOOL DISTRICT

Statement of Changes in Fiduciary Net Assets
Fiduciary Funds

Year ended June 30, 2007

	Private Purpose Trust Scholarship
	<u>\$</u>
Additions:	
Local sources:	
Gifts and contributions	4,450
Interest	95
Total additions	<u>4,545</u>
Deductions:	
Support services:	
Scholarships awarded	<u>3,700</u>
Change in net assets	845
Net assets beginning of year	<u>10,769</u>
Net assets end of year	<u><u>11,614</u></u>

CLAY CENTRAL/EVERLY COMMUNITY SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2006

1. Summary of Significant Accounting Policies

Clay Central/Everly Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve. The geographic area served includes the Cities of Royal and Everly, Iowa and the predominately agricultural territory in a portion of Clay, Dickinson and O'Brien Counties. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

The District's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, Clay Central/Everly Community School District has included all funds, organizations, agencies, boards, commissions, and authorities. The District has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the District. The Clay Central/Everly Community School District has no component units that meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations - The District participates in a jointly governed organization that provides services to the District but does not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the County Assessor's Conference Board.

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Net Assets and the Statement of Activities report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for service.

The Statement of Net Assets presents the District's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets not meeting the definition of the two preceding categories. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions, and interest restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements – Separate financial statements are provided for governmental, proprietary, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The District reports the following major governmental fund:

The General Fund is the general operating fund of the District. All general tax revenues and other revenues not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenditures, including instruction, support and other costs.

The District's proprietary fund is the Enterprise, School Nutrition Fund. This fund is used to account for the food service operations of the District.

The District also reports fiduciary funds which focus on net assets and changes in net assets. The District's fiduciary funds include the following:

The Private-Purpose Trust Fund is used to account for assets held by the District under trust agreements, which require income earned to be used to benefit individuals through scholarship awards.

The Agency Fund is used to account for assets held by the District as an agent for individuals, private organizations, and other governments. The Agency Fund is custodial in nature, assets equal liabilities, and does not involve measurement of results of operations.

C. Measurement Focus and Basis of Accounting

The government-wide, proprietary and fiduciary fund financial statements are reported using the economic resources measurement focus and accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants, and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgements, and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under the terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

The proprietary fund of the District applies all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's Enterprise Fund is charges to customers for sales and services. Operating expenses for Enterprise Funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The District maintains its financial records on the cash basis. The financial statements of the District are prepared by making memorandum adjusting entries to the cash basis financial records.

D. Assets, Liabilities and Fund Equity

The following accounting policies are followed in preparing the financial statements:

Cash, Pooled Investments and Cash Equivalents - The cash balances of most District funds are pooled and invested. Investments are stated at fair value except for the investment in the Iowa Schools Joint Investment Trust which is valued at amortized cost and non-negotiable certificates of deposit which are stated at cost.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash, and at the day of purchase, have a maturity date no longer than three months.

Property Tax Receivable – Property tax in governmental funds is accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the

District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds became due and collectible in September and March of the fiscal year with a 1 ½% per month penalty for delinquent payments; is based on January 1, 2005 assessed property valuations; is for the tax accrual period July 1, 2006, through June 30, 2007, and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2006.

Due from Other Governments - Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants, and reimbursements from other governments.

Inventories - Inventories are valued at cost using the first-in, first-out method for purchased items and government commodities. Inventories of proprietary funds are recorded as expenses when consumed rather than when purchased or received.

Capital Assets – Capital assets, which include property, furniture and equipment are reported in the applicable governmental or business type activities columns in the government-wide Statement of Net Assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repair that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

<u>Asset Class</u>	<u>Amount</u>
	\$
Land	500
Buildings	500
Improvements other than buildings	1,000
Furniture and equipment:	
School Nutrition Fund equipment	500
Other furniture and equipment	1,000

Capital assets are depreciated using the straight line method over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Buildings	50 years
Improvements other than buildings	5-25 years
Furniture and equipment	3-15 years

Salaries and Benefits Payable – Payroll and related expenditures for teachers with annual contracts corresponding to the current school year, which are payable in July and August, have been accrued as liabilities.

Deferred Revenue – Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represent the amount of assets that have been

recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds as well as property tax receivable and other receivables not collected within sixty days after year end.

Deferred revenue in the Statement of Net Assets consists of unspent grant proceeds, amounts received in advance for meal sales and succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

Compensated Absences - District employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use. Employees are not paid for unused vacation and sick leave benefits when employment with the District ends.

Long-term Liabilities – In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column in the Statement of Net Assets.

Fund Equity – In the governmental fund financial statements, reservations of fund balance are reported for amounts not available for appropriation or legally restricted by outside parties for use for a specific purpose.

Restricted Net Assets – In the government-wide Statement of Net Assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors, or laws and regulations of other governments or are imposed by law through constitutional provisions or enabling legislation.

E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2007, the District exceeded the amount of the amended budget in the other expenditures function. The District also exceeded its General Fund spending authority.

2. Cash and Pooled Investments

The District's deposits in banks at June 30, 2007 were entirely covered by federal depository insurance, or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

At June 30, 2007, the District had investments in the Iowa Schools Joint Investment Trust as follows:

	<u>Amortized Cost</u>
	\$
Diversified Portfolio	29,015

The investment is valued at an amortized cost pursuant to Rule 2a-7 under the Investment Company Act of 1940.

Credit risk: The investment in the Iowa Schools Joint Investment Trust is rated Aaa by Moody's Investors Service.

3. Interfund Receivables and Payables

The detail of interfund receivables and payables at June 30, 2007 is as follows:

Receivable Fund	Payable Fund	Amount
		\$
General Fund	Capital Projects Fund	16,119
General Fund	Nutrition Fund	28,718
		44,837

These interfund balances represent interfund loans which will be repaid during the next fiscal year.

4. Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2007 is as follows:

Transfer To	Transfer From	Amount
		\$
Debt Service Fund	General Fund	21,279

These transfers reflect debt service payments from the General Fund.

5. Iowa School Cash Anticipation Program (ISCAP)

The District participates in the Iowa School Cash Anticipation Program (ISCAP). ISCAP is a program of the Iowa Association of School Boards and is designed to provide funds to participating entities during periods of cash deficits. ISCAP is funded by a semiannual issuance of anticipatory warrants, which mature as noted below. The warrant sizing of each school corporation is based on a projection of cash flow needs during the semiannual period. ISCAP accounts are maintained for each participating entity, and monthly statements are provided regarding their cash balance, interest earnings and amounts available for withdrawal for each outstanding series of warrants. Bankers Trust Co. N.A. is the trustee for the program. A summary of the District's participation in ISCAP as of June 30, 2007, is as follows:

Series	Warrant Date	Final Warrant Maturity	Investments \$	Accrued Interest Receivable \$	Warrants Payable \$	Accrued Interest Payable \$
2006-07B	01/26/07	01/25/08	-	3,695	553,000	9,980
2007-08A	06/28/07	06/27/08	1,213,080	363	1,215,000	299
Total			1,213,080	4,058	1,768,000	10,279

The District pledges its state foundation aid payments and General Fund receipts as security for warrants issued. Repayments must be made when General Fund receipts are received. If a balance is outstanding on the last date the funds are available to be drawn, then the District must repay the outstanding withdrawal from its General Fund receipts. In addition, the District must make minimum warrant repayments on the 25th of each month immediately following the final date that the warrant proceeds may be used in an amount equal to 25% of the warrant amount. ISCAP advance activity in the General Fund for the year ended June 30, 2007, is as follows:

Balance Beginning of Year	Advances Received	Advances Repaid	Balance End of Year
\$	\$	\$	\$
262,900	1,230,645	941,955	551,590

The warrants bear interest and the available proceeds of the warrants are invested at the interest rates shown below:

Series	Interest Rates on Warrants	Interest Rates on Investments
2006-07B	4.250	5.315
2007-08A	4.500	5.455

6. Capital Assets

Capital assets activity for the year ended June 30, 2007 was as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
	\$	\$	\$	\$
Governmental activities:				
Capital assets not being depreciated:				
Land	9,589	-	-	9,589
Capital assets being depreciated:				
Buildings	2,805,441	-	-	2,805,441
Improvements other than buildings	342,633	46,356	1,670	387,319
Furniture and equipment	1,490,571	229,889	56,943	1,663,517
Total capital assets being deprec.	4,638,645	276,245	58,613	4,856,277
Less accumulated depreciation for:				
Buildings	1,777,826	54,574	-	1,832,400
Improvements other than buildings	327,523	7,785	1,670	333,638
Furniture and equipment	1,377,323	92,965	49,537	1,420,751
Total accumulated depreciation	3,482,672	155,324	51,207	3,586,789
Total capital assets being depreciated, net	1,155,973	120,921	7,406	1,269,488
Governmental activities capital assets, net	1,165,562	120,921	7,406	1,279,077

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
	\$	\$	\$	\$
Business type activities:				
Furniture and equipment	36,429	2,359	-	38,788
Less accumulated depreciation	<u>29,980</u>	<u>2,358</u>	<u>-</u>	<u>32,338</u>
Business type activities capital assets, net	<u>6,449</u>	<u>1</u>	<u>-</u>	<u>6,450</u>

Depreciation expense was charged to the following functions:

	\$
Governmental activities:	
Instruction:	
Regular	63,310
Support services:	
Operation and maintenance of plant services	7,412
Transportation	<u>22,243</u>
	92,965
Unallocated depreciation	<u>62,359</u>
Total depreciation expense – governmental activities	<u>155,324</u>
Business type activities:	
Food services	<u>2,358</u>

7. Notes Payable

The District has a short term note at Home State Bank with a balance due at June 30, 2007 totaling \$130,127 at 5.75% interest rate. The note matures January 15, 2008.

8. Long-Term Liabilities

Changes in long-term liabilities for the year ended June 30, 2007, are summarized as follows:

	Balance Beginning of Year	Additions	Reductions	Balance End of Year	Due Within One Year
	\$	\$	\$	\$	\$
Energy loan notes	38,908	-	19,042	19,866	19,866
Termination benefits	<u>14,476</u>	<u>14,843</u>	<u>9,326</u>	<u>19,993</u>	<u>8,331</u>
Total	<u>53,384</u>	<u>14,843</u>	<u>28,368</u>	<u>39,859</u>	<u>28,197</u>

Termination Benefits

The District offers a voluntary early retirement plan to its employees. Eligible employees must have completed at least fifteen years of full-time service to the District and must have reached the age of fifty-five on or before June 30 in the calendar year in which early retirement commences. The application for early retirement is subject to approval by the Board of Education.

At June 30, 2007, the District has obligations to two participants with a total liability of \$19,993. Actual early retirement expenditures for the year ended June 30, 2007 totaled \$9,326.

Energy Loan Notes

The District has issued Energy Management Improvement Capital Loan Notes in the aggregate amount of \$180,000 to be used to pay a portion of the costs to implement the energy conservation and energy management measures program. The note is due on June 1, 2008, with interest at 5.75% due annually each June 1st. The maturities are as follows:

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
	\$	\$	\$
2008	<u>19,866</u>	<u>1,142</u>	<u>21,008</u>

9. Pension and Retirement Benefits

The District contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual covered salary and the District is required to contribute 5.75% of annual covered payroll for the years ended June 30, 2007, 2006 and 2005. Contribution requirements are established by state statute. The District's contributions to IPERS for the years ended June 30, 2007, 2006, and 2005 were \$144,575, \$137,239 and \$129,330 respectively, equal to the required contributions for each year.

10. Risk Management

The District is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The District assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

11. Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$151,253 for the year ended June 30, 2007 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

12. Financial Condition

The General Fund has a deficit unreserved fund balance of \$717,175, the Capital Projects Fund has a deficit balance of 20,375 and the School Nutrition Fund has negative net assets of \$27,869 at June 30, 2007.

REQUIRED SUPPLEMENTARY INFORMATION

CLAY CENTRAL/EVERLY COMMUNITY SCHOOL DISTRICT

Budgetary Comparison Schedule of Revenues, Expenditures, and Changes in Balances -
Budget and Actual - All Governmental Funds and Proprietary Fund

Required Supplementary Information

Year ended June 30, 2007

	Governmental Fund Actual	Proprietary Fund Actual	Total Actual	Budgeted Amounts		Final to Actual Variance - Positive (Negative)
				Original	Final	
	\$	\$	\$	\$	\$	\$
Revenues:						
Local sources	2,939,948	91,264	3,031,212	2,706,222	2,706,222	324,990
State sources	1,878,327	2,138	1,880,465	2,086,126	2,086,126	(205,661)
Federal sources	103,202	70,873	174,075	160,900	160,900	13,175
Total revenues	<u>4,921,477</u>	<u>164,275</u>	<u>5,085,752</u>	<u>4,953,248</u>	<u>4,953,248</u>	<u>132,504</u>
Expenditures:						
Instruction	2,833,412	-	2,833,412	3,030,000	3,030,000	196,588
Support services	1,481,108	-	1,481,108	1,329,500	2,225,000	743,892
Non-instructional programs	473	189,938	190,411	240,000	240,000	49,589
Other expenditures	483,012	-	483,012	469,472	469,472	(13,540)
Total expenditures	<u>4,798,005</u>	<u>189,938</u>	<u>4,987,943</u>	<u>5,068,972</u>	<u>5,964,472</u>	<u>976,529</u>
Excess (deficiency) of revenues over (under) expenditures	123,472	(25,663)	97,809	(115,724)	(1,011,224)	1,109,033
Other financing sources (uses) net	-	-	-	175,000	175,000	(175,000)
Excess (deficiency) of revenues and other financing sources (uses) over (under) expenditures	123,472	(25,663)	97,809	59,276	(836,224)	934,033
Balance beginning of year	<u>(819,198)</u>	<u>(2,206)</u>	<u>(821,404)</u>	<u>(174,000)</u>	<u>(174,000)</u>	<u>(647,404)</u>
Balance end of year	<u><u>(695,726)</u></u>	<u><u>(27,869)</u></u>	<u><u>(723,595)</u></u>	<u><u>(114,724)</u></u>	<u><u>(1,010,224)</u></u>	<u><u>286,629</u></u>

See accompanying independent auditor's report.

CLAY CENTRAL/EVERLY COMMUNITY SCHOOL DISTRICT

Notes to Required Supplementary Information - Budgetary Reporting

Year ended June 30, 2007

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds except Internal Service, Private Purpose Trust and Agency Funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on a GAAP basis.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions, not by fund. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated function level, not by fund. The Code of Iowa also provides that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula. During the year, the District adopted one budget amendment increasing budgeted expenditures by \$895,500.

During the year ended June 30, 2007, expenditures in the other expenditures function exceeded the amount budgeted. The District also exceeded its General Fund spending authority.

OTHER SUPPLEMENTARY INFORMATION

CLAY CENTRAL/EVERLY COMMUNITY SCHOOL DISTRICT

Combining Balance Sheet
Nonmajor Governmental Funds

June 30, 2007

Assets	Special Revenue Fund			Total
	Management	Student	Capital	
	Levy	Activity	Projects	
	\$	\$	\$	\$
Cash and pooled investments	21,043	20,022	42,204	83,269
Receivables:				
Property tax:				
Delinquent	1,175	-	-	1,175
Succeeding year	85,000	-	-	85,000
Accounts	-	3,917	-	3,917
Due from other governments	-	-	83,667	83,667
Total assets	107,218	23,939	125,871	257,028
Liabilities & Fund Balances				
Liabilities:				
Accounts payable	557	3,776	-	4,333
Interfund payables	-	-	16,119	16,119
Deferred revenue:				
Succeeding year property tax	85,000	-	-	85,000
Notes payable	-	-	130,127	130,127
Total liabilities	85,557	3,776	146,246	235,579
Fund balances:				
Unreserved fund balance reported in:				
Special revenue funds	21,661	20,163	-	41,824
Capital project funds	-	-	(20,375)	(20,375)
Total fund balances	21,661	20,163	(20,375)	21,449
Total liabilities and fund balances	107,218	23,939	125,871	257,028

CLAY CENTRAL/EVERLY COMMUNITY SCHOOL DISTRICT

Combining Schedule of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds

Year ended June 30, 2007

	Special Revenue Funds					Total
	Management	Student	Support	Capital	Debt	
	Levy	Activity	Trust	Projects	Service	
	\$	\$	\$	\$	\$	\$
Revenues:						
Local sources:						
Local tax	75,067	-	-	331,548	-	406,615
Other	6,505	67,271	84	72	-	73,932
State sources	42	-	-	-	-	42
Federal sources	-	-	-	16,275	-	16,275
Total revenues	<u>81,614</u>	<u>67,271</u>	<u>84</u>	<u>347,895</u>	<u>-</u>	<u>496,864</u>
Expenditures:						
Current:						
Instruction:						
Regular	28,633	-	-	-	-	28,633
Other	-	86,527	-	-	-	86,527
Support services:						
Student	58,257	-	-	-	-	58,257
Instructional staff	616	-	-	-	-	616
Administration	10,196	-	84	11,391	-	21,671
Operation and maintenance of plant	24,073	-	-	-	-	24,073
Transportation	8,442	-	-	-	-	8,442
Non-instructional programs	473	-	-	-	-	473
Other expenditures:						
Facilities acquisition	-	-	-	310,480	-	310,480
Long-term debt:						
Principal	-	-	-	-	19,042	19,042
Interest and fiscal charges	-	-	-	-	2,237	2,237
Total expenditures	<u>130,690</u>	<u>86,527</u>	<u>84</u>	<u>321,871</u>	<u>21,279</u>	<u>560,451</u>
Excess (deficiency) of revenues over (under) expenditures	(49,076)	(19,256)	-	26,024	(21,279)	(63,587)
Other financing sources (uses):						
Operating transfers in	-	-	-	-	21,279	21,279
Net change in fund balances	(49,076)	(19,256)	-	26,024	-	(42,308)
Fund balances beginning of year	<u>70,737</u>	<u>39,419</u>	<u>-</u>	<u>(46,399)</u>	<u>-</u>	<u>63,757</u>
Fund balances end of year	<u>21,661</u>	<u>20,163</u>	<u>-</u>	<u>(20,375)</u>	<u>-</u>	<u>21,449</u>

CLAY CENTRAL/EVERLY COMMUNITY SCHOOL DISTRICT

Schedule of Changes in Special Revenue Fund, Student Activity Accounts

Year ended June 30, 2007

	Balance Beginning of Year	Revenues	Expenditures	Balance End of Year
	\$	\$	\$	\$
RIF	824	530	499	855
Science fair	412	1,194	948	658
Musical/play	5,050	2,695	3,852	3,893
Athletics	1,634	28,180	42,730	(12,916)
Fish fry-fund raiser	6,303	7,677	4,710	9,270
FFA	8,499	5,814	12,963	1,350
Class of 2006	45	-	143	(98)
Class of 2007	2,861	325	2,863	323
Class of 2008	3,671	2,350	3,736	2,285
Class of 2009	1,901	1,011	-	2,912
Class of 2010	1,439	-	-	1,439
Class of 2011	1,916	-	-	1,916
Class of 2012	1,053	123	-	1,176
Class of 2013	-	1,052	12	1,040
HS student council	50	366	504	(88)
MS student council	172	33	159	46
Dance team	347	312	371	288
Interest	113	145	-	258
HS student pop	1,399	1,320	1,073	1,646
Concessions	125	3,616	5,911	(2,170)
Cheerleaders/drill team	723	623	1,333	13
Yearbook	4,556	5,093	4,732	4,917
MS yearbook	790	851	1,120	521
Everly elem. pop	72	260	(13)	345
Royal elem. pop	334	380	571	143
Beginning accruals	(4,870)	(596)	(5,466)	-
Ending accruals	-	3,917	3,776	141
Total	39,419	67,271	86,527	20,163

CLAY CENTRAL/EVERLY COMMUNITY SCHOOL DISTRICT

Schedule of Changes in Fiduciary Assets and Liabilities
Agency Fund

Year ended June 30, 2007

	<u>Wellness</u>	<u>Staff</u> <u>Collections</u>	<u>Total</u>
	\$	\$	\$
Balance beginning of year	1,761	594	2,355
Additions:			
Collections	46	-	46
Deductions:			
Miscellaneous	<u>945</u>	<u>261</u>	<u>1,206</u>
Balance end of year	<u><u>862</u></u>	<u><u>333</u></u>	<u><u>1,195</u></u>

CLAY CENTRAL/EVERLY COMMUNITY SCHOOL DISTRICT

Schedule of Revenues by Source and Expenditures by Function
All Governmental Funds

For the Last Four Years

	Modified Accrual Basis			
	2007	2006	2005	2004
		\$	\$	\$
Revenues:				
Local sources:				
Local tax	2,531,092	2,138,555	1,985,339	2,294,713
Tuition	249,008	233,651	169,629	104,886
Other	159,848	207,449	175,153	168,973
State sources	1,878,327	1,837,744	1,627,999	1,495,353
Federal sources	103,202	162,484	154,562	159,525
Total revenues	<u>4,921,477</u>	<u>4,579,883</u>	<u>4,112,682</u>	<u>4,223,450</u>
Expenditures:				
Instruction:				
Regular	1,763,287	1,684,894	1,755,841	1,813,721
Special	626,457	605,403	559,174	451,164
Other	443,668	491,957	513,517	349,733
Support services:				
Student	194,405	135,419	103,446	182,842
Instructional staff	123,788	131,974	141,061	160,140
Administration	647,765	595,832	489,617	533,061
Operation and maintenance of plant	337,531	360,926	321,960	280,957
Transportation	177,619	261,619	146,576	179,973
Non-instructional programs	473	1,700	14,329	-
Other expenditures:				
Facilities acquisition	310,480	325,588	401,264	195,588
Long-term debt:				
Principal	19,042	17,981	16,978	16,032
Interest and other charges	2,237	3,271	4,247	5,169
AEA flowthrough	151,253	145,603	138,798	141,419
Total expenditures	<u>4,798,005</u>	<u>4,762,167</u>	<u>4,606,808</u>	<u>4,309,799</u>

Gary E. Horton CPA

902 Central Ave. E.-PO Box 384
Clarion, IA 50525-0384
(515)532-6681 Phone
(515) 532-2405 Fax
BETCO@mchsi.com E-mail

Independent Auditor's Report on Internal Control
over Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in Accordance with
Government Auditing Standards

To the Board of Education of
Clay Central/Everly Community School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Clay Central/Everly Community School District as of and for the year ended June 30, 2007, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated April 23, 2008. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Clay Central/Everly Community School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of Clay Central/Everly Community School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Clay Central/Everly Community School District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies and other deficiencies we consider to be material weaknesses.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Clay Central/Everly Community School District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. generally accepted accounting principles such that there is more than a remote likelihood a misstatement of Clay Central/Everly Community School District's financial statements that is more than inconsequential will not be prevented or detected by Clay Central/Everly Community School District's internal control. We consider the deficiencies in internal control described in Part I of the accompanying Schedule of Findings and Responses to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies that results in more than a remote likelihood a material misstatement of the financial statements will not be prevented or detected by Clay Central/Everyly Community School District's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we believe items 07-I-A and 07-I-B are material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Clay Central/Everyly Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part II of the accompanying Schedule of Findings and Responses.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2007 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Clay Central/Everyly Community School District's responses to findings identified in our audit are described in the accompanying Schedule of Findings and Responses. While we have expressed our conclusions on the District's responses, we did not audit Clay Central/Everyly Community School District's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Clay Central/Everyly Community School District and other parties to whom Clay Central/Everyly Community School District may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Clay Central/Everyly Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

BURTON E. TRACY & CO., P.C.
Certified Public Accountants

April 23, 2008

CLAY CENTRAL/EVERLY COMMUNITY SCHOOL DISTRICT

Schedule of Findings and Responses

Year ended June 30, 2007

Part I: Findings Related to the Financial Statements:

Significant deficiencies:

07-I-A Segregation of Duties: The limited number of personnel makes it difficult to achieve adequate internal accounting control through the segregation of duties and responsibilities, such as recording and processing cash receipts, preparing checks and bank reconciliations, preparing and posting general journal entries, preparation of journals and general financial information for ledger posting, and the analysis of financial information. A small staff makes it difficult to establish an ideal system of automatic internal checks on accounting record accuracy and reliability, although we noted the District had taken steps to segregate duties between the present personnel. This is not an unusual condition but it is important the District officials are aware that the condition exists.

Recommendation: We realize that with a limited number of office employees, segregation of duties is difficult. However, the District should review its control procedures and investigate methods to increase monitoring activities to obtain the maximum internal control possible under the circumstances.

District Response: The District is aware of the lack of complete segregation of duties and will make changes as the opportunity arises.

Conclusion: Response accepted.

07-I-B Financial Statement Preparation: Financial statement preparation is the responsibility of the District. At the present time District personnel do not have the skills necessary to be able to write the District's financial statements and the related note disclosures. This is not an unusual situation for small governmental entities.

Recommendation: District personnel should attend any governmental accounting and reporting training sessions that may be offered by the Iowa Department of Education, State Auditor's Office or Iowa Association of School Business Officials. The school business office should also have governmental accounting and reporting reference materials.

District Response: As a school we certainly understand the need for continuing education classes for all of our staff. However, we have a limited budget and must continually prioritize needs. At this point in time it is not cost effective to train our staff to the level necessary that would enable them to write the financial statements, nor is it feasible to hire additional employees that already possess the skills.

Conclusion: Response accepted.

Instances of Noncompliance:

No matters were reported.

CLAY CENTRAL/EVERLY COMMUNITY SCHOOL DISTRICT

Schedule of Findings and Responses

Year ended June 30, 2007

Part II: Other Findings Related to Statutory Reporting:

07-II-A Certified Budget: Expenditures for the year ended June 30, 2007 exceeded the amended budget in the other expenditures function. The District also exceeded its General Fund spending authority.

Recommendation: The District amended its budget but not in the other expenditures function. The District should contact the Iowa Department of Education and the School Budget Review committee to resolve the unspent authorized budget issue.

District Response: We will try to amend the budget for all functional areas in the future and restore our General Fund spending authority. We will contact the Iowa Department of Education the School Budget Review Committee.

Conclusion: Response accepted.

07-II-B Questionable Expenditures: We noted no expenditures that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

07-II-C Travel Expenses: No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.

07-II-D Business Transactions: Business transactions between the District and District officials or employees are detailed as follows:

<u>Name, Title and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Gary Klett	Officiating	\$ 850

The transaction does not appear to represent a conflict of interest since the dollar amount was less than \$2,500.

07-II-E Bond Coverage: Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of bond coverage should be reviewed annually to insure that the coverage is adequate for current operations.

07-II-F Board Minutes: We noted no transactions requiring Board approval that had not been approved by the Board.

07-II-G Certified Enrollment: The number of basic resident students reported to the Iowa Department of Education on Line 1 of the Certified Enrollment Certification Form for September 2006, was overstated by 1 student.

Recommendation: The District should contact the Iowa Department of Education and the Department of Management to resolve this matter.

District Response: We will contact these departments.

Conclusion: Response accepted.

CLAY CENTRAL/EVERLY COMMUNITY SCHOOL DISTRICT

Schedule of Findings and Responses

Year ended June 30, 2007

Part II: Other Findings Related to Statutory Reporting (Continued):

07-II-H Deposits and Investments: We noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.

07-II-I Certified Annual Report (CAR): The Certified Annual Report was not certified to the Iowa Department of Education timely.

07-II-J Financial Condition: The District has unreserved deficit fund balances in the General Fund of \$717,175, the Capital Projects Fund of \$20,375 and the School Nutrition Fund of \$27,869 at June 30, 2007. The Activity Fund also has several accounts with deficit balances.

Recommendation: The District should continue to monitor these funds and investigate alternatives to eliminate the deficits.

District Response: We are working on ways to eliminate the deficits.

Conclusion: Response accepted.

07-II-K Old Outstanding Checks: We noted that the District's bank reconciliations included a few old outstanding checks. Iowa Code Section 566 specifies that holders unclaimed property, which includes outstanding checks, must file a report with and send the unclaimed property to the Treasurer of Iowa.

Recommendation: The District should investigate the status of all old outstanding checks. Checks that were issued in error or in duplicate should be voided and removed from the list of outstanding checks. The District should search for the owners of all other outstanding checks, then reissue new checks if the owners are found. If the owners can not be found, the District must file an unclaimed property report with and send the money to the Treasurer State of Iowa.

Response: We will begin investigating the status of old outstanding checks and we will file an unclaimed property report with the Treasurer of Iowa if necessary.

Conclusion: Response accepted.

07-II-L Physical Plant and Equipment Levy Fund: The Physical Plant and Equipment Levy Fund may be used to purchase equipment with a unit cost exceeding \$500. We noted that some expenditures from this fund included equipment with a unit cost of less than \$500.

Recommendation: The District should be aware of the limitation on types of expenditures allowed from this fund and consider reimbursing the Physical Plant and Equipment Fund for the purchases.

District Response: We will monitor the expenditures from this fund and have General Fund make the reimbursement.

Conclusion: Response accepted.